

FRC Consultation – The Wates Corporate Governance Principles for Large Private Companies

No.	Consultation Questions	Heathrow's Responses
1.	Do the Principles address the key issues of the corporate governance of large private companies? If not, what is missing?	<p>We believe that the draft Principles do address the main issues of corporate governance for large private companies, however we do have the following comments:</p> <ul style="list-style-type: none"> - <i>Principle Two (Composition):</i> although the guidance refers to diversity, the Principle itself refers to '<i>backgrounds</i>', which could be interpreted differently. We believe it would be more effective if the word '<i>diversity</i>' was used in the text of the Principle itself. - <i>Principle Four (Opportunity and Risk):</i> the guidance refers to '<i>developing appropriate risk management systems that identify the risks facing the company ...</i>' The guidance could be extended to give examples of these (i.e. establishing a risk committee). - <i>Principle Four (Opportunity and Risk):</i> the guidance refers to '<i>appropriate accountability to stakeholders, particularly with regards to conflicts of interest</i>'. More clarity could be provided on conflicts of interest and how to manage them.
2.	Are there any areas in which the Principles need to be more specific?	<p>Generally, we feel that the Principles should be brief and to the point. Also, the supporting guidance for the Principles should be kept to a minimum, so as to avoid creating additional principles and a plethora of requirements. We do, however, have the following comments:</p> <ul style="list-style-type: none"> - A best practice model should be developed of what a good corporate governance report should look like for large private companies. This should not be more than a couple of pages in length.

		<ul style="list-style-type: none"> - Application of the Principles, particularly the proposed obligation on private companies to report on which corporate governance code they adopt, should not just be a tick-box exercise. Private companies should be encouraged to report on how the Principles are relevant to them and explain how they have applied them, or chosen not to.
3.	Do the Principles and guidance take sufficient account of the various ownership structures of private companies, and the role of the board, shareholders and senior management in these structures? If not, how would you revise them?	The ownership structure of some large private companies will, to a certain extent, determine the composition of their boards. For example board composition may reflect family members, investors or shareholder appointed representatives. This means that it could be unrealistic to expect a perfect composition in terms of a balance of skills, backgrounds, experience and knowledge. Furthermore, costs may restrict private company boards from appointing independent non-executive directors ('NEDs') and the ability to demonstrate input from an independent source. For this reason, board composition should not be a numbers game. Good governance is achieved through the quality of independent NEDs and their constructive contribution.
4.	Do the Principles give key shareholders sufficient visibility of remuneration structures in order to assess how workforce pay and conditions have been taken into account in setting directors' remuneration?	Yes, the guidance for Principle Five (Remuneration) recommends that the Board should establish a clear policy on the transparency of remuneration structures that enable effective accountability to key shareholders.
5.	Should the draft Principles be more explicit in asking companies to detail how their stakeholder engagement has influenced decision-making at board level?	No. The current Principles together with the proposals introduced by the <i>Companies (Miscellaneous Reporting) Regulations 2018</i> , requiring large private companies to publish an Employee Engagement Statement and Wider Engagement Statement, should be sufficient.
6.	Do the Principles enable sufficient visibility of a board's approach to stakeholder engagement?	Yes, the Principles together with the proposals introduced by the <i>Companies (Miscellaneous Reporting) Regulations 2018</i> requiring large private companies (with 250+ UK employees) to publish an Employee Engagement Statement in their financial statements and proposal for very large private companies to publish a Wider Engagement Statement,

		should provide sufficient visibility of employee and stakeholder engagement.
7.	Do you agree with an 'apply and explain' approach to reporting against the Principles? If not, what is a more suitable method of reporting?	We support the "apply and explain" approach because it enables large private companies, which for whatever reason do not apply a certain principle or guidance to the letter, to explain how they could achieve the same outcome effectively but in a different way. For example it may not be practical for all large private companies to have a majority of independent non-executive directors on their boards.
8.	The Principles and the guidance are designed to improve corporate governance practice in large private companies. What approach to the monitoring of the application of the Principles and guidance would encourage good practice?	We believe that the proposal for large private companies to report on their corporate governance arrangements in their financial statements and on their websites will be sufficient to encourage good practice.
9.	Do you think that the correct balance has been struck by the Principles between reporting on corporate governance arrangements for unlisted versus publicly listed companies?	Yes, it is right that the strongest corporate governance and reporting standards should be applied to publicly listed companies to alleviate the risks associated with the separation of shareholders from the daily decision-making process undertaken by executive management. Private companies should not be subject to the same level of reporting and accountability requirements as publicly listed companies. The ownership and management structures of large private companies vary dramatically and there needs to be flexibility as a 'one-size-fits-all' approach would not be appropriate. Private companies already have detailed corporate governance disclosure requirements in their annual reports under the Companies Act legislation, so further regulation should only be introduced if necessary.
10.	We welcome any commentary on relevant issues not raised in the questions above.	There is currently no commentary/guidance for large private companies covering the adoption of the Wates Corporate Governance Principles versus elements of the UK Corporate Governance Code. Is it envisaged that large private companies will adopt the Wates Principles in their entirety, or elements from each code?